

# Moore Advisers

*Chartered Tax Advisers*



## Changes to R&D TAX Concession

Simplifying tax to maximise your benefit

# The R&D Tax Incentive Program?

The R&D Tax Incentive is the Australian Government's flagship program to encourage business to engage in R&D in Australia.

The R&D Tax Incentive has replaced the R&D Tax Concession effective from 1 July 2011. The new R&D regime provides a larger potential incentive with a comparably high rate. However the definition of eligible R&D is narrowed, which means companies' will need to scrutinise their R&D activities to qualify for the incentive and obtain the maximum benefits.

## The key features of the new R&D incentive include:

### 1. Companies with a group turnover less than \$20 million

Companies with a group turnover less than \$20 million will be entitled to a refundable tax offset equal to 45% of their R&D deductions. This will be equivalent to a 150% tax deduction, which is 25% more than the old rate of 125%.

Even companies in a tax loss position for an income year are still entitled to receive a refundable tax offset giving them a cash rebate in return in that year.

The Government intends to introduce quarterly payments for small and medium sized businesses from 1 January 2014. This will allow companies to get their cash rebate sooner, significantly improving their cash flow and incentive to invest in R&D.

### 2. Companies with a group turnover \$20 million or more

Companies with a group turnover of \$20 million or more are not eligible for the 45% tax offset will be entitled to a tax offset equal to 40% of the R&D deductions. The tax offset for 'large' company's is not refundable but will be offset against other tax liabilities.

Company Turnover	< \$20 Million		> \$20 Million	
	LOSS	PROFIT	LOSS	PROFIT
Tax Position	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
R&D expenses	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Tax payable	-	\$300,000	-	\$300,000
Tax offset	\$450,000	\$150,000	\$400,000	\$100,000
Real Value per dollar spent	Cash refund	Cash refund	Offset against other tax liabilities of carried-forward to future years	

### 3. Permanent establishment of foreign companies

In addition to Australian resident companies and public trading trusts with a corporate trustee, Australian branches of foreign companies operating in Australia are now eligible for the new R&D tax credit.

### 4. Outsourced R&D activities

Companies are also entitled to a tax offset for certain R&D expenditure incurred to a research service provider, or as a monetary contribution to a cooperative research centre.

## OUR SERVICES

Tax Consulting

R&D Tax Strategies

R&D Documentation Reviews

Preparation of R&D Applications

Transfer Pricing Documentation

Tax Audit Defence

In-House Training

## OUR EXPERIENCE

We have a 100% success rate with ATO audits. Our clients like to ensure that they comply with the tax law and with our support can verify that the tax claims are fully substantiated.

## BUSINESS SOLUTIONS

We have a network of professionals across various fields to advise you in: legal, finance, international, marketing and valuations.

With this in mind we look to see that all aspects of your claim are covered and connect you to the right people from concept through to commercialisation.



## Measures to tighten the definition of R&D

### 5. R&D activities

Eligible R&D activities will be categorised as either core or supporting R&D activities. The definition of core R&D activities closely focuses on the requirement for an experiment to be conducted using the “scientific method” in order to address a “significant knowledge gap”.

This means that in order to qualify for the R&D credit company’s must pursue new information; to solve a problem, develop or improve products or processes; and the taxpayer needs to undertake experiments to discover that knowledge.

### 6. Advanced Finding

Under the R&D incentive, applicants can obtain an advance finding of whether their activities are eligible R&D activities. The Application for Advance Findings form has now been made available. The advance finding is applied for prior to the registration of activities, and will determine whether an activity is a core R&D activity, a supporting R&D activity or neither of the two. The finding binds Innovation Australia to register activities that the finding has determined as eligible and binds the ATO to treat the activities as R&D activities when making a decision whether an expenditure is an R&D expenditure.

### 7. Overseas R&D

Applicants can now obtain a R&D incentive where part of the R&D activities are conducted overseas, subject to the following conditions:

- the company receiving an advance finding that the activities are eligible;
- the overseas activities must have a significant scientific link to one or more core R&D activities conducted in Australia;
- the overseas activities cannot be conducted solely in Australia because conducting it requires access to a facility, expertise or equipment or requires access to a population (of living things) or to geographical or geological features not available in Australia, or would contravene quarantine laws;
- the total amount to be spent in all income years on the overseas activities is less than the total amount to be spent on R&D in Australia.

### 8. Computer Software

In-house software development is excluded from being a core R&D activity if it is developed for the purpose of the internal administration of business functions.

### 9. Feedstock Adjustment

The feedstock adjustment operates to ‘claw back’ 10% of the incentive component of the R&D tax offset that is enjoyed on the recouped feedstock expenditure (i.e. feedstock output revenue less related feedstock input costs).

### 10. Transition from R&D Tax Concession

R&D expenditure incurred in respect of registered activities conducted prior to 1 July 2011, must continue to be claimed under the R&D tax concession.

## How we can help

Moore Advisers has a combined total of over 11 years in assisting clients with R&D Tax. As specialist tax and audit advisers our combined practice years exceed 50 years.

Our approach is to first understand your business and your R&D projects. Once we have achieved that, we look to simplify the tax to maximise your benefit.

We are a fully registered tax agent. This means that we can discuss how the R&D claim will impact on all other areas of your tax affairs.

We would be pleased to arrange a meeting to discuss any of the above changes or any other tax planning issues. Please do not hesitate to contact Moore Advisers on 07 3165 8051.



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